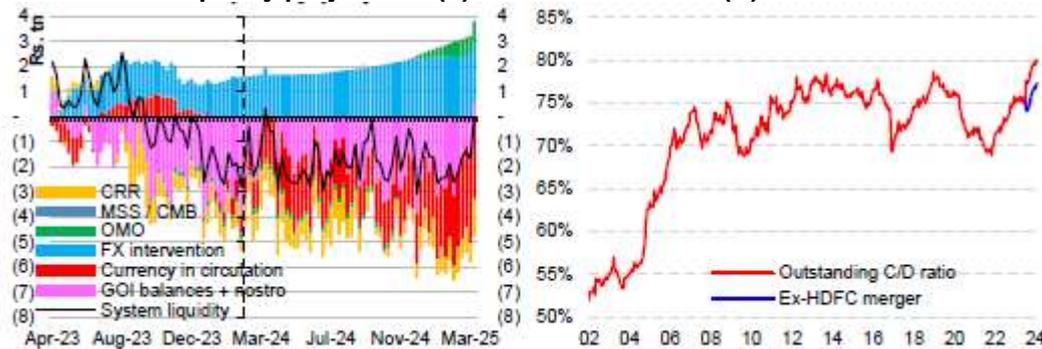


India Data Liquidity and Banking Update

RBI allows overnight rates lower amid strong demand.

Exhibit: India liquidity projections (L) and bank C/D ratio (R)



Source: Axis Bank Business and Economic Research

India liquidity tightens on GST, but GOI spending may have begun

India liquidity tightened to around Rs. 2.5 tn in the current fortnight along expected lines, following GST payments. As seen in exhibit 1, GOI balances held with the RBI have been the biggest drain on liquidity in the year so far, probably tracking stronger tax collections, higher flow of non-market borrowings, and spending constrained by the TSA/SNA accounting framework. As in the past few years (exhibit 3), this mechanism has kept balances high through the year, with spending picking up in late Feb. Compared to trends over the last two years, this trend might have begun, pushing liquidity to comfortable levels in early FY25 before tightening again. A more permanent solution would be to change the pattern of G-sec/T-bill issuance to match projected spending needs.

RBI allowing overnight rates to fall below the repo rate far more stark

The RBI began experimenting with returning to a VRRR-based framework starting Dec'23, but in its latest MPC indicated that conditions in terms of rates would be kept tight to encourage credit market transmission – sure enough, overnight rates that had begun to drift lower based on Jan-end spending were speedily returned to the MSF level through the use of VRRR. However, despite drift lower in levels over the last two week, VRRR has not been used, with some arguing that the amount of VRR provided was more than needed by markets. Markets were taken by surprise Wednesday with overnight rates allowed to fall below the repo rate – taken together with increased emphasis on lower inflation in the recent RBI bulletin, some have taken this as a sign of less adverse liquidity management in the year-end period, allowing for the raising of finance. Anecdotally, this has allowed heavy CD issuance, easing some pressures on banks.

Credit expansion continues at strong pace, CD ratio remains at record

Bank credit growth continued above 20% for the 8th consecutive fortnight, with growth before the HDFC merger rising to 16.3% - demand largely predominating funding tightness with the CD ratio remaining at record levels of ~80%. Deposit growth at 13.6% (13.0% before the HDFC merger) also picked up, with good fortnightly increments in deposits driven by credit and government spending at end-Jan alike. Monthly numbers available next week will be watched for another update on distribution of credit growth.

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